



**UNION BANK AND
TRUST COMPANY**

ESTABLISHED 1898

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September 15, 2006

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 Seventeenth Street, N.W.
Washington DC 20429

Attention: Comments

Re: Deposit Insurance Assessments and
Federal Home Loan Bank Advances

Dear Mr. Feldman:

This letter is written to comment on the Federal Deposit Insurance Corporation's proposal to classify Federal Home Loan Bank advances as volatile liabilities and potentially charge advance users higher deposit insurance premiums. We oppose this proposal since the Federal Home Loan Banks are highly stable institutions and advances are low risk. If enacted, this rule would be harmful to the member institutions and could increase exposure and risk to the FDIC.

Advances are not a volatile liability for members. They are a key component of liquidity providing efficient balance sheet management. Unlike deposits, advances do not diminish when market forces or consumer habits change.

Federal Home Loan Banks themselves are a core part of the American banking system. As created by Congress in 1932, they have been the standard for stability, surviving the swings of markets, interest rates and business cycles. Their cooperative structure, joint and several liability and conservative business models ensure the future availability of advance products for their over 8,000 members.

Discouraging banks from borrowing from Federal Home Loan Banks would be counterproductive to reducing risks for the FDIC. Federal Home Loan Bank advances ensure available, cost-effective liquidity, manage interest-rate risk, as well as fund loan growth. Penalizing advance use will force institutions to look for other, alternative sources that are not as dependable and are far more volatile than the Federal Home Loan Banks. This would result in fewer loans, reduced profits and higher liquidity and interest-rate risk.

The FDIC should continue to determine rates using an institutions actual risk profile, reflected in comprehensive supervisory ratings. Those institutions engaged in risky activity should have higher premiums than their more conservative counterparts regardless of whether the funding comes through advances, deposits or other sources.

When Congress created the Federal Home Loan Bank System in 1932 its goal was a steady stream of mortgage credit through advances. Congress reiterated its support of advances by expanding small banks access to this funding in the Gramm-Leach-Bliley Act. This proposal, which seeks to penalize the judicious use of advances runs contrary to the actions and intent of Congress.

Sincerely,

UNION BANK AND TRUST COMPANY

A handwritten signature in dark ink, appearing to read "A. Schulze", written in a cursive style.

Albert V. Schulze
President